

THE ARC JACKSONVILLE, INC.
CONSOLIDATED FINANCIAL REPORT
Years Ended September 30, 2022 and 2021

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ABARE, KRESGE & ASSOCIATES CPAS, LLC

CERTIFIED PUBLIC ACCOUNTANTS

1200 Plantation Island Drive South, Ste 230
St. Augustine, FL 32080
William T. Abare III, CPA, MAFF, CVA, MAcc

(904) 460-0747
Fax (904) 209-3000
Kenneth R. Kresge, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Arc Jacksonville, Inc.

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of The Arc Jacksonville, Inc. (a Florida not-for-profit corporation), its subsidiaries (The Arc Jacksonville Village Partners, LLC and The Arc Jacksonville Village Developer, LLC), and its affiliates (Duval Association for Residential Care, Inc., St. Nicholas Place, Inc., and Ask Arc Jacksonville, Inc.), which comprise the consolidated statements of financial position as of September 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Arc Jacksonville, Inc. as of September 30, 2022 and 2021, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Arc and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Other Matters

Subsequent Event: COVID-19 Pandemic

As discussed in Note 21 to the consolidated financial statements, management has evaluated the operational and financial effect on the Arc of the COVID-19 pandemic. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arc's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Arc's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arc's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Additionally, the accompanying schedule of sources and status of funds for the City of Jacksonville per ordinance 118.208(e) is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2023, on our consideration of The Arc Jacksonville, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc Jacksonville, Inc.'s internal control over financial reporting and compliance.

Ahmed, Krueger & Associates CPAs, LLC

St. Augustine, FL
January 19, 2023

THE ARC JACKSONVILLE, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2022 and 2021

	2022	2021
ASSETS		
Cash, including certificates of deposit	\$ 3,636,010	\$ 6,215,080
Accounts receivable, net	1,075,774	701,082
Unconditional promises to give, net	351,723	275
Prepaid expenses	81,041	29,028
Investments	4,554,250	2,634,128
Beneficial interest in assets held by Community Foundation	29,548	38,256
Deposits	2,999	2,999
HUD funded reserves, net	154,052	122,329
Deposits held in trust - funded	6,982	6,972
Unconditional promise to give: in-kind land lease, net	672,421	672,421
Property and equipment, net	4,714,306	4,203,661
TOTAL ASSETS	\$ 15,279,106	\$ 14,626,231
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 718,078	\$ 383,902
Accrued labor and other related expenses	372,127	624,670
Short-term financing	9,634	-
Deferred revenue	1,256,825	466,445
Tenant deposits	5,816	5,791
Mortgages and debts payable	710,336	772,508
TOTAL LIABILITIES	3,072,816	2,253,316
 NET ASSETS		
Without donor restrictions	10,850,804	11,536,445
With donor restrictions	1,355,486	836,470
TOTAL NET ASSETS	12,206,290	12,372,915
TOTAL LIABILITIES AND NET ASSETS	\$ 15,279,106	\$ 14,626,231

See accompanying notes

THE ARC JACKSONVILLE, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2022

	Without	With	
REVENUE AND SUPPORT	<u>Donor Restrictions</u>	<u>Donor Restrictions</u>	<u>Total</u>
Government contracts and revenue			
Federal	\$ 310,492	\$ 231,573	\$ 542,065
State of Florida	-	502,065	502,065
City of Jacksonville	-	150,000	150,000
United Way of Northeast Florida, Inc.	-	52,987	52,987
Contributions	536,057	123,648	659,705
Contributions, in-kind	659,274	-	659,274
Contract revenue	1,275,329	-	1,275,329
Program service fees	5,380,543	-	5,380,543
Special events	341,179	-	341,179
Interest income	208,137	269	208,406
Unrealized gain (loss) on investments	(1,008,979)	-	(1,008,979)
Gain of sale of property	21,119	-	21,119
Other income	345,371	-	345,371
Total revenue and support	<u>8,068,522</u>	<u>1,060,542</u>	<u>9,129,064</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>541,526</u>	<u>(541,526)</u>	<u>-</u>
EXPENSES			
Program services	8,023,045	-	8,023,045
Management and general	1,059,545	-	1,059,545
Development	213,099	-	213,099
Total expenses	<u>9,295,689</u>	<u>-</u>	<u>9,295,689</u>
CHANGES IN NET ASSETS	(685,641)	519,016	(166,625)
NET ASSETS, BEGINNING	<u>11,536,445</u>	<u>836,470</u>	<u>12,372,915</u>
NET ASSETS, ENDING	<u>\$ 10,850,804</u>	<u>\$ 1,355,486</u>	<u>\$ 12,206,290</u>

See accompanying notes

THE ARC JACKSONVILLE, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2021

	Without	With	
REVENUE AND SUPPORT	<u>Donor Restrictions</u>	<u>Donor Restrictions</u>	<u>Total</u>
Government contracts and revenue			
Federal	\$ 316,357	\$ 193,390	\$ 509,747
State of Florida	-	501,016	501,016
City of Jacksonville	-	86,461	86,461
Other grants	-	594,430	594,430
United Way of Northeast Florida, Inc.	-	86,105	86,105
Contributions	1,017,455	226,465	1,243,920
Contributions, in-kind	640,945	-	640,945
Contract revenue	632,529	-	632,529
Program service fees	4,972,560	31,237	5,003,797
Refundable advance income	-	1,175,940	1,175,940
Special events	229,473	-	229,473
Interest income	139,951	79	140,030
Unrealized loss on investments	289,378	-	289,378
Gain of sale of property	8,000	-	8,000
Other income	431,410	-	431,410
Total revenue and support	<u>8,678,058</u>	<u>2,895,123</u>	<u>11,573,181</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>3,277,712</u>	<u>(3,277,712)</u>	<u>-</u>
EXPENSES			
Program services	7,607,672	-	7,607,672
Management and general	764,196	-	764,196
Development	197,489	-	197,489
Total expenses	<u>8,569,357</u>	<u>-</u>	<u>8,569,357</u>
CHANGES IN NET ASSETS	3,386,413	(382,589)	3,003,824
NET ASSETS, BEGINNING	<u>8,150,032</u>	<u>1,219,059</u>	<u>9,369,091</u>
NET ASSETS, ENDING	<u>\$ 11,536,445</u>	<u>\$ 836,470</u>	<u>\$ 12,372,915</u>

See accompanying notes

THE ARC JACKSONVILLE, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2022

	Program Services						Supporting Services		
	Employment Services	Residential Care	Adult Day Services	Advocacy	The Village	Total	Management & General	Development	Total
Salaries, wages and taxes	\$ 765,768	\$ 1,343,403	\$ 1,928,157	\$ 241,841	\$ 483,961	\$ 4,763,130	\$ 728,440	\$ 106,345	\$ 5,597,915
Personnel benefits	41,581	192,430	208,987	26,143	59,480	528,621	(77,729)	16,084	466,976
Personnel expenses	11,208	4,479	28,739	1,550	1,534	47,510	382	166	48,058
	818,557	1,540,312	2,165,883	269,534	544,975	5,339,261	651,093	122,595	6,112,949
Advertising and printing	-	-	-	6,485	315	6,800	-	8,868	15,668
Professional fees	-	14,715	75,685	-	-	90,400	264,320	8,460	363,180
Education and training	6,500	-	2,818	-	-	9,318	-	-	9,318
Equipment leasing	2,520	6,466	6,904	2,432	1,554	19,876	85,719	-	105,595
Food	-	92,406	611	-	44,824	137,841	-	-	137,841
Consumer personal allowance	-	136,681	-	-	-	136,681	-	-	136,681
Insurance	15,326	47,528	4,775	5,000	35,213	107,842	89,538	-	197,380
Repairs and maintenance	6,001	91,640	-	-	10,000	107,641	76,438	-	184,079
Membership and subscriptions	-	-	20	410	-	430	37,155	137	37,722
Occupancy	51,720	104,747	243,661	12,779	-	412,907	252,550	-	665,457
Supplies	544	37,777	9,298	684	3,385	51,688	30,720	5,656	88,064
Subcontracted services	-	8,932	126,802	-	-	135,734	21,938	-	157,672
Transportation	21,363	-	126,842	-	2,330	150,535	7,072	-	157,607
Travel	6,046	1,299	5,841	3,229	647	17,062	5,004	1,942	24,008
Utilities	-	52,654	8,349	4,102	9,183	74,288	89,549	508	164,345
Interest	-	5,235	-	-	-	5,235	-	-	5,235
Bank charges	-	-	8,697	-	1,502	10,199	-	-	10,199
Contract materials	13,541	-	-	-	-	13,541	-	-	13,541
Special events	-	-	2,762	-	-	2,762	9,699	700	13,161
Other	6,763	9,565	18,427	206	27,059	62,020	245,316	64,233	371,569
Total expenses before depreciation	948,881	2,149,957	2,807,375	304,861	680,987	6,892,061	1,866,111	213,099	8,971,271
Depreciation	9,109	102,923	121,160	-	27,984	261,176	63,242	-	324,418
Total expenses after depreciation	957,990	2,252,880	2,928,535	304,861	708,971	7,153,237	1,929,353	213,099	9,295,689
Allocation of management and general expenses	61,529	271,478	425,207	51,262	60,332	869,808	(869,808)	-	-
Total expenses	\$ 1,019,519	\$ 2,524,358	\$ 3,353,742	\$ 356,123	\$ 769,303	\$ 8,023,045	\$ 1,059,545	\$ 213,099	\$ 9,295,689

See accompanying notes

THE ARC JACKSONVILLE, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2021

	Program Services						Supporting Services		
	Employment Services	Residential Care	Adult Day Services	Advocacy	The Village	Total	Management & General	Development	Total
Salaries, wages and taxes	\$ 648,636	\$ 1,259,837	\$ 1,577,175	\$ 130,410	\$ 395,975	\$ 4,012,033	\$ 602,020	\$ 135,593	\$ 4,749,646
Personnel benefits	60,140	249,646	294,729	20,987	75,223	700,725	139,554	36,461	876,740
Personnel expenses	9,273	4,745	10,158	88	1,131	25,395	303	45	25,743
	<u>718,049</u>	<u>1,514,228</u>	<u>1,882,062</u>	<u>151,485</u>	<u>472,329</u>	<u>4,738,153</u>	<u>741,877</u>	<u>172,099</u>	<u>5,652,129</u>
Advertising and printing	-	-	-	-	-	-	-	6,749	6,749
Professional fees	-	14,760	34,000	-	3,400	52,160	240,329	7,459	299,948
Education and training	-	-	4,543	443	-	4,986	-	-	4,986
Equipment leasing	1,204	5,591	29,191	375	9,932	46,293	56,324	-	102,617
Food	-	81,053	220	-	3,395	84,668	-	-	84,668
Consumer personal allowance	-	139,190	-	-	-	139,190	-	-	139,190
Insurance	15,326	64,201	5,611	5,336	38,628	129,102	67,383	-	196,485
Repairs and maintenance	1,935	86,564	-	-	10,000	98,499	100,140	-	198,639
Membership and subscriptions	-	-	120	-	-	120	32,685	791	33,596
Occupancy	51,720	110,028	248,474	-	-	410,222	252,550	-	662,772
Supplies	6,575	37,307	5,039	214	4,522	53,657	35,929	4,157	93,743
Subcontracted services	-	8,684	71,575	-	-	80,259	23,311	-	103,570
Transportation	20,641	784	128,236	-	4,543	154,204	10,259	-	164,463
Travel	4,457	1,842	4,410	2,861	442	14,012	2,932	546	17,490
Utilities	461	47,538	6,795	3,150	8,234	66,178	77,458	-	143,636
Interest	-	9,355	-	-	-	9,355	-	-	9,355
Bank charges	-	-	5,423	-	1,337	6,760	-	-	6,760
Contract materials	9,140	-	-	-	-	9,140	-	-	9,140
Special events	-	-	551	-	-	551	5,513	-	6,064
Other	6,051	8,800	52,227	2,206	13,017	82,301	220,311	5,688	308,300
Total expenses before depreciation	835,559	2,129,925	2,478,477	166,070	569,779	6,179,810	1,867,001	197,489	8,244,300
Depreciation	12,295	102,821	114,573	-	44,298	273,987	51,070	-	325,057
Total expenses after depreciation	847,854	2,232,746	2,593,050	166,070	614,077	6,453,797	1,918,071	197,489	8,569,357
Allocation of management and general expenses	106,280	426,880	499,814	30,706	90,195	1,153,875	(1,153,875)	-	-
Total expenses	<u>\$ 954,134</u>	<u>\$ 2,659,626</u>	<u>\$ 3,092,864</u>	<u>\$ 196,776</u>	<u>\$ 704,272</u>	<u>\$ 7,607,672</u>	<u>\$ 764,196</u>	<u>\$ 197,489</u>	<u>\$ 8,569,357</u>

See accompanying notes

THE ARC JACKSONVILLE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (166,625)	\$ 3,003,824
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	324,418	325,057
Gain on sale of property	(21,119)	(8,000)
Unrealized (gain)/loss on investments	1,008,979	(289,378)
Net changes in:		
Accounts receivable, net	(374,692)	63,453
Unconditional promises to give, net	(351,448)	101,694
Prepaid expenses	(52,013)	216,005
Beneficial interest in assets held by Community Foundation	8,708	(7,230)
Deposits	-	221
Deposits held in trust - funded	(10)	(228)
Accounts payable and accrued expenses	334,176	(23,418)
Accrued labor and other related expenses	(252,543)	256,142
Deferred revenue	790,380	263,339
Tenant deposits	25	(221)
Net cash provided by operating activities	1,248,236	3,901,260
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,929,101)	(102,378)
Proceeds from sale of property	21,119	8,000
HUD funded reserves, net	(31,723)	(8,793)
Expenditures made to construction in progress	(796,338)	(75,259)
Purchases of property and equipment	(38,725)	(367,773)
Net cash provided/(used) by investing activities	(3,774,768)	(546,203)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term financing	9,634	-
Payments on notes payable	(62,172)	(56,700)
Net cash used by financing activities	(52,538)	(56,700)
 NET CHANGE IN CASH	(2,579,070)	3,298,357
CASH, BEGINNING	6,215,080	2,916,723
CASH, ENDING	\$ 3,636,010	\$ 6,215,080
 SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 5,714	\$ 1,833

See accompanying notes

SUPPLEMENTAL INFORMATION

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION

The mission of The Arc Jacksonville, Inc., a Florida not-for-profit corporation, its subsidiaries (The Arc Jacksonville Village Partners, LLC and The Arc Jacksonville Village Developer, LLC), and its affiliates, (Duval Association for Residential Care, Inc., St. Nicholas Place, Inc., The Arc Jacksonville Village, Ltd. and Ask Arc Jacksonville, Inc.), collectively known as the "Arc", is to serve and advocate for individuals with intellectual and developmental differences to achieve their full potential and to participate in community life.

The Arc serves adults with intellectual and developmental disabilities (I/DD), some with a dual diagnosis of mental health needs. Services include educational and training programs as well as residential services at nine Jacksonville locations. These programs include a college program at the University of North Florida, which includes living in on- and off-campus student housing. During summer months, the LIFE program offers the opportunity for 18 to 26 year old individuals to experience independent living in apartments with peer-aged supports. The Arc's information and referral department, known as ASK, serves all ages and disabilities and their families. This education outreach program provides invaluable seminars, workshops, referrals and consultations. In the spring of 2016, The Arc Jacksonville Village opened to provide affordable rental housing for adults with I/DD. The Arc is also a national service site for AmeriCorps and VISTA.

The Arc Jacksonville, Inc.'s original affiliate, Duval Association for Residential Care, Inc. ("DARC") is being utilized in accordance with U.S. Department of Housing and Urban Development ("HUD") financing requirements (See Note 6). This financing was arranged to construct two new residential group homes in 1983. DARC is included in the consolidated financial statements of the Arc.

The Arc Jacksonville, Inc. assumed responsibility for the management and operation of another affiliate, St. Nicholas Place, Inc., on January 1, 2006. This corporation owns one residential group home, which has also been financed by HUD. St. Nicholas Place, Inc. will continue to function as a HUD housing organization and maintains ownership of the facility and physical assets. Programs at St. Nicholas Place, Inc. are managed through The Arc Jacksonville, Inc. St. Nicholas Place, Inc. is included in the consolidated financial statements of the Arc.

Ask Arc Jacksonville, Inc. was established in 2006. As of September 30, 2022 and 2021, there was no activity in this corporation.

The Arc Jacksonville Village Partners, LLC, The Arc Jacksonville Village, Ltd., and The Arc Jacksonville Village Developer, LLC were established in 2012 to provide management and other services for the development of The Arc Jacksonville Village, Ltd., a first in Florida community concept of independent living for individuals with I/DD.

The Arc Jacksonville, Inc. had held a direct limited partner interest of The Arc Jacksonville Village, Ltd., holding 99.99% of the partnership ownership interest until April 1, 2015 when the partnership agreement was amended and restated. According to the terms of the amended and restated partnership agreement, The Arc Jacksonville, Inc. withdrew its direct limited partnership interest from the partnership. The Arc Jacksonville Village, Inc.'s interest was succeeded by Raymond James Housing Opportunities Fund 39 L.L.C. in connection with the credit financing of The Arc Jacksonville Village, Ltd., under the terms set forth by the Florida Housing Finance Corporation. For the years ended September 30, 2022 and 2021, The Arc Jacksonville Village, Ltd. did not meet the criteria for consolidation, and therefore, was not included in the Arc's consolidated financial report.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Arc have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Organization follows Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC), as developed by the Financial Accounting Standards Board (FASB). Under ASC 606, revenue recognition for customer contract related services is required when promised goods or services are transferred to customers in an amount that reflects the consideration to which an organization expects to be entitled in exchange for those goods and services.

Fair Value of Financial Instruments

All financial instruments are carried at amounts that approximate estimated fair value. Financial Accounting Standards Board ASC 820, *Fair Value Measurement* ("ASC 820"), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Arc can access at the measurement date.

Level 2

Inputs to the valuation methodology are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable for the asset or liability. Unobservable inputs are defined as inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

Except as described in Note 15, all financial instruments are considered to be Level 1 inputs in the fair value hierarchy.

Classification of Net Assets

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide").

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Arc and changes therein are classified as follows:

- a) Net assets without donor restrictions: Net assets are resources over which the Board of Directors (the "Board") has discretionary control including those unrestricted net assets invested in certificates of deposits, investments and property and equipment.

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Net Assets (Continued)

- b) Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Arc or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. After the donor-imposed time or purpose restriction is satisfied, donor restricted net assets are reclassified to donor unrestricted net assets and reported within the statement of activities as net assets released from restrictions.

In addition, financial statement presentation follows the recommendations of the American Institute of Certified Public Accountants in its Industry Audit Guide, *Audits of Voluntary Health and Welfare Organization*.

Principles of Consolidation

The consolidated financial statements include the accounts of The Arc Jacksonville, Inc., its two wholly owned subsidiaries, The Arc Jacksonville Village Partners, LLC and The Arc Jacksonville Village Developer, LLC, and its affiliates, Duval Association for Residential Care, Inc., St. Nicholas Place, Inc., and Ask Arc Jacksonville, Inc., after elimination of all significant inter-company balances and transactions.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of 90 days or less. Certificates of deposit are readily convertible to cash and are stated at cost plus accrued earnings, which approximate fair value.

Accounts Receivable

The Arc receives fees from the State of Florida Medicaid Waiver Program for services provided to participants. A reserve for doubtful accounts is provided based on the Arc's experience. As of September 30, 2022, the total accounts receivable balance was \$1,100,774 (\$726,082 for the year ended September 30, 2021). The Arc's allowance for doubtful accounts was \$25,000 at September 30, 2022 and 2021.

Property and Equipment

Property and equipment are stated at cost, if purchased. Donations of property and equipment are recorded at their estimated fair market value at the date of donation. Such donations are reported as without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Arc reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Arc reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Expenditures for renewals or improvements that either materially add value or prolong the useful lives of assets are capitalized. Expenditures that are less than \$1,000 are expensed as incurred.

Building and improvements are depreciated using the straight-line method over their estimated useful lives, which range from 5 to 40 years. Vehicles, furniture, fixtures and equipment are depreciated using the straight-line method over their estimated useful lives, which range from 3 to 10 years. Land and construction in progress are not depreciated. Depreciation expense was \$324,418 for the year ended September 30, 2022 (\$325,057 for the year ended September 30, 2021).

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Employees accrue vacation pay at a rate based on their length of service according to the following schedule.

Years of Service Hours Earned/Month

0–3 years - 8 hours

4–5 years - 10 hours

6–9 years - 12 hours

10+ years - 14 hours

Vacation pay is fully vested when earned, up to a maximum of 15 days. Employees may carry 120 hours of earned annual leave to the following year; any hours exceeding 120 are forfeited. Upon termination of employment, an employee is paid for up to 120 hours of the earned annual leave. Accordingly, the liability recorded has been computed using the total number of unpaid hours earned as of September 30, 2022 and 2021, up to the maximum payout of 120 hours. Accrued vacation totaled \$140,835 at September 30, 2022 (\$143,562 at September 30, 2021).

Investments

Investments are composed of money market funds, fixed income instruments and mutual funds/ETFs and are carried at fair value.

Contributions

In accordance with FASB ASC 958, *Financial Statements of Not-for-Profit Entities*, contributions received are recorded as donor restricted or donor unrestricted support depending on the existence and/or nature of donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. Under FASB ASC 958, contributions that are required to be reported as donor restricted support are then reclassified to net assets without donor restrictions upon expiration of time restrictions or satisfaction of donor restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Unconditional promises to give (“pledges”) are recorded when unconditional promises to pay are recorded. Unconditional promises to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Management uses the direct method in writing-off uncollectable promises to give. The Arc writes off specific pledges receivable as they become uncollectible. Use of the direct method did not result in a material departure from accounting principles generally accepted in the United States of America.

Donated Goods and Services

The Arc records the value of donated goods or services when there is an objective basis available to measure their value. Donated services of a professional or skilled nature are presented at the estimated value of such services. Donated goods, including equipment, are reflected in the accompanying statements at their estimated value at date of receipt.

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services (Continued)

When contributed real or personal property is promised for several years, either in connection with a lease or a situation similar to a lease then the contribution is recognized at fair value and is recorded as an increase in net assets with donor restrictions. The present value of the lease is reported as an asset that is amortized over the term of the promise.

Additionally, a number of volunteers periodically donate significant amounts of time to the Arc. The Arc's Board of Directors and its officer's serve without compensation. No amounts have been reflected in the statement of activities for these contributed services since the contribution of these services did not create or enhance non-financial assets or require specialized skills, and therefore do not meet the requirements for recognition in the financial statements under accounting principles generally accepted in the United States of America.

Contributions of the use of facilities totaled \$500,560 for the year ended September 30, 2022 (\$487,781 for the year ended September 30, 2021), which includes a rent factor of \$10 per square foot. In addition, the University of North Florida donated various services in the amount of \$98,564 for the year ended September 30, 2022 (\$88,201 for the year ended September 30, 2021). Household supplies, and office supplies donated by various organizations amounted to \$0 for the year ended September 30, 2022 (\$0 for the year ended September 30, 2021).

Income Taxes

The Arc Jacksonville, Inc. is a Florida not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and Chapter 220.13 of the Florida Statutes, respectively. The Arc Jacksonville Village, Ltd., an affiliate of The Arc Jacksonville, Inc., is a taxable partnership, which was established for the purpose of developing The Arc Jacksonville Village.

Accounting for Income Taxes

The Arc has adopted FASB ASC 740-10, *Accounting for Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Based on analyses of various federal and state filing positions of the Arc, management believes that its income tax filing positions and deductions are well documented and supported.

As of September 30, 2022, the Arc had no temporary differences relating to the recognition of income and expenses for financial and tax reporting purposes. Accordingly, no deferred tax assets or liabilities are recorded. Additionally, as of September 30, 2022, the Arc had no uncertain tax positions that would qualify for either recognition or disclosure in the financial statements. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FASB ASC 740-10. In addition, no cumulative effect adjustment related to the adoption of FASB ASC 740-10 was recorded.

There have been no increases or decreases in unrecognized tax benefits for current or prior years since the date of adoption. Furthermore, no interest or penalties have been included since no reserves were recorded and no significant increases or decreases are expected to occur within the next 12 months. When applicable, such interest and penalties will be reported as income tax expense.

Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Arc's tax returns will not be challenged by the taxing authorities and that the Arc will not be subject to additional tax, penalties, and interest as a result of such challenge. At September 30, 2022, the periods that remain open to examination under federal statute are for the fiscal years ended September 30, 2019 through 2021.

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Distributions

The regulatory agreements that Duval Association for Residential Care, Inc. and St. Nicholas Place, Inc. have with HUD stipulate, among other things, that they will not make distributions of assets or income to any of its officers or directors.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements.

Accordingly, actual results could differ from those estimated. The nature of those estimates, however, is such that variances from actual results are held to be immaterial.

Functional Expense Allocation

The costs of providing program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services of the Arc and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Project cost	Time and effort
Subcontract services	Time and effort
Insurance	Full time equivalent
Occupancy	Square footage
Depreciation	Square footage
Utilities	Square footage
Professional services	Full time equivalent

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash	\$ 3,636,010	\$ 5,440,772
Certificates of Deposit	-	774,308
Total cash, including certificates of deposit	<u>\$ 3,636,010</u>	<u>\$ 6,215,080</u>

At September 30, 2022, the Arc held no certificates of deposit. The certificates of deposit that matured during the year end September 30, 2022 were rolled into fixed income instruments.

At September 30, 2021, the Arc held four certificates of deposit, totaling \$774,308 and bearing interest of 0.05%, with maturities ranging from December 16, 2021 to August 4, 2022.

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give, as discounted at 13% (10% at September 2021), were expected to be received as follows at September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 100,000	\$ 275
One to five years	400,000	-
Total unconditional promises to give	500,000	275
Unamortized discount	(148,277)	-
Unconditional promises to give, net	<u>\$ 351,723</u>	<u>\$ 275</u>

NOTE 5 INVESTMENTS

The fair values of all of the trading securities listed below as of September 30, 2022 and 2021 were based on unadjusted, quoted prices in active markets as of the measurement date (often referred to as Level 1 inputs). Cost and fair value of investments were as follows:

	<u>2022</u>		
	<u>Cost Basis</u>	<u>Unrealized Gain/(Loss)</u>	<u>Estimated Fair Value</u>
Investment Money Market Funds	\$ 73,155	\$ (874)	\$ 73,155
Fixed Income Instruments	756,057	-	755,183
Mutual Funds/ETFs	4,450,440	(724,528)	3,725,912
Total investments at fair value	<u>\$ 5,279,652</u>	<u>\$ (725,402)</u>	<u>\$ 4,554,250</u>
	<u>2021</u>		
	<u>Cost Basis</u>	<u>Unrealized Gain/(Loss)</u>	<u>Estimated Fair Value</u>
Investment Money Market Funds	\$ 48,159	\$ -	\$ 48,159
Mutual Funds/ETFs	2,296,591	289,378	2,585,969
Total investments at fair value	<u>\$ 2,344,750</u>	<u>\$ 289,378</u>	<u>\$ 2,634,128</u>

NOTE 6 MORTGAGES AND DEBTS PAYABLE

As of September 30, 2022 and 2021, mortgages and debts payable consisted of the following:

	<u>2022</u>	<u>2021</u>
Note payable to the City of Jacksonville. The note is non-interest bearing and repayment is not required as long as the building houses very low-income persons with disabilities. If the Arc complies with the terms of the note, the note will be discharged upon maturity in April 2038. If the Arc defaults on the terms of the note, the entire principal sum becomes due upon demand, together with any unpaid interest, which will accrue at the highest legal rate permitted by law after default until paid. Collateralized by real estate.	\$ 346,182	\$ 346,182
Mortgage payable to HUD. The note is non-interest bearing and repayment is not required as long as the building houses very low-income persons with disabilities. If St. Nicholas Place, Inc. complies with the terms of the note, the note will be discharged upon maturity in December 2036. If St. Nicholas Place, Inc. defaults on the terms of the note the entire principal sum and accrued interest at 7.875% becomes due upon demand. Collateralized by real estate.	316,600	316,600

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 MORTGAGES AND DEBTS PAYABLE (Continued)

Mortgage payable to HUD in monthly installments of \$5,657 including interest at 9.25% per annum until 2023. Collateralized by real estate.	27,622	89,794
Unsecured note payable to HUD bearing an interest rate of 1%. Principal and interest payments are to begin in the year 2023.	<u>19,932</u>	<u>19,932</u>
Total mortgages and debts payable	<u>\$ 710,336</u>	<u>\$ 772,508</u>

Maturities of mortgages and debts payable were as follows at September 30, 2022:

For the year ended September 30:

2023	\$	47,554
2024		-
2025		-
2026		-
Thereafter		<u>662,782</u>
Total		<u>\$ 710,336</u>

NOTE 7 DONATED USE OF LAND

On March 2, 2011, the Arc entered into a lease agreement with the state of Florida, Agency for Persons with Disabilities (the Agency) whereby, the Arc would lease from the Agency certain premises owned by the state of Florida. The initial term of the lease is for a 99-year period ending on March 1, 2110. The fair value of the lease was determined to be \$150,000 annually on a gross basis. In connection with this lease agreement, the Arc discounted the value of the 99 year initial term of the lease and recorded a restricted contribution and an associated unconditional promise to give for the net present value of the in-kind lease to be amortized over the term of the lease. On November 1, 2013, the Arc transferred its right under the initial lease dated March 2, 2011, to The Arc Jacksonville Village, Ltd. For the years ended September 30, 2022 and 2021, the net unconditional promise to give of \$672,421 and \$672,421, respectively, for 14.427 acres of land was included in the financial statements of the Arc.

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Land	\$ 279,946	\$ 279,946
Buildings and improvements	5,266,292	5,237,310
Furniture, fixtures and equipment	893,919	887,353
Vehicles	1,210,842	1,233,754
Construction in progress	<u>871,597</u>	<u>75,259</u>
Total property and equipment	8,522,596	7,713,622
Less, accumulated depreciation	<u>(3,808,290)</u>	<u>(3,509,961)</u>
Property and equipment, net	<u>\$ 4,714,306</u>	<u>\$ 4,203,661</u>

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

The Arc's net assets with donor restrictions consisted of the following as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
HUD-restricted deposits	\$ 154,052	\$ 122,329
Community foundation	29,013	29,013
Program-restricted funds	<u>1,172,421</u>	<u>685,128</u>
Total net assets with donor restrictions	<u>\$ 1,355,486</u>	<u>\$ 836,470</u>

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS (Continued)

“HUD-restricted deposits” includes Reserve for Replacements and Residual Receipts.

Reserve for Replacements – Under the regulatory agreements, the HUD Projects are required to set aside amounts for the replacement of property and other project expenditures approved by HUD. HUD-restricted deposits, which approximated \$152,149 at September 30, 2022 (\$120,429 for the year ended September 30, 2021) were held in separate accounts and generally are not available for operating purposes.

Residual Receipts – Use of the residual receipts account is contingent upon HUD’s written approval. The residual receipts balance totaled \$1,903 at September 30, 2022 (\$1,900 for the year ended September 30, 2021).

NOTE 10 NET ASSETS WITHOUT DONOR RESTRICTIONS

As of September 30, 2022 and 2021, The Arc’s net assets without donor restrictions subject to spending policy and appropriation totaled \$11,136,885 and \$11,536,445, respectively.

NOTE 11 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets with donor restrictions are released by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors. Net assets with donor restrictions released during the year ended September 30, 2022 totaled \$541,526 (\$3,277,712 for the year ended September 30, 2021) and were utilized for program expenditures.

	2022	2021
Contributions	\$ 123,648	\$ 382,589
Capital campaign	-	206,897
Federal and state grants	214,622	1,293,404
HUD reserve	-	31,237
Refundable advance income	-	1,175,940
Other local grants	203,256	187,645
Total net assets released	\$ 541,526	\$ 3,277,712

NOTE 12 OPERATING LEASES

The headquarters of the Arc is located in a building in downtown Jacksonville and is leased from the City of Jacksonville for \$1 per year under a lease agreement dated October 1, 1985. Over time, the lease has been renewed and is set to expire on July 25, 2031. Both parties may terminate the lease upon 30 days written notice. For the years ended September 30, 2022 and 2021, rent expense under this lease is included in “Occupancy” on the schedule of functional expenses.

The Arc leased certain office equipment under operating lease agreements as of September 30, 2022 and 2021, which expire in various years through 2026. The leases provide for total minimum monthly rental fees of \$991 and \$4,977. Rent expense under these operating leases, including additional charges, was \$68,563 and \$54,721 for the years ended September 30, 2022 and 2021, respectively, and is included in office expense on the statement of functional expenses.

Future amounts due under the lease commitments at September 30, 2022 are as follows:

2023	\$	59,719
2024		59,719
2025		59,719
2026		9,953
Total	\$	189,110

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 CONCENTRATIONS OF CREDIT RISK

The Arc maintains its cash balances with high quality financial institutions in the Jacksonville, Florida area. Accounts at these institutions currently are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. At times, such balances may be in excess of FDIC insurance limits. At September 30, 2022, the Arc’s uninsured cash balances totaled approximately \$536,650 (\$1,405,526 for the year ended September 30, 2021).

NOTE 14 OTHER CONCENTRATIONS OF RISK

The Arc received approximately 87% of its support through Federal, State and local government funding during the year ended September 30, 2022 (69% for the year ended September 30, 2021). This funding represented approximately 11% (14% for the year ended September 30, 2021) of Federal and State grants and 76% of government programs. (55% for the year ended September 30, 2021). Consequently, changes in government funding levels in future periods have the potential to significantly impact the consolidated financial position and operations of the Arc.

Duval Association for Residential Care, Inc. and St. Nicholas Place, Inc. operate in a heavily regulated environment. Their operations are subject to the administrative directives, rules, and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

NOTE 15 THE ARC JACKSONVILLE ENDOWMENT

The Arc has entered into an agreement with The Community Foundation for Northeast Florida (the “Community Foundation”) to establish and maintain a permanent endowment named The Arc Jacksonville Endowment (the “Endowment”). The Endowment is managed and controlled by the Community Foundation and all contributions made to the Community Foundation for the Endowment are irrevocable. The Endowment is subject to the variance power granted to it by the Arc, whereby the Community Foundation’s Board of Trustees may modify any condition or restriction on the distribution of funds if in its sole judgment such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the area served by the Community Foundation.

Distributions the Community Foundation makes from the endowment fund to the Arc are limited each year to a distributable amount determined pursuant to the Community Foundation’s Spending Policy, as set and amended from time to time by the Community Foundation’s Board of Trustees. The Spending Policy is designed to protect the economic value of the principal of the Endowment, help the principal grow over time, give the Arc the benefit of a reasonably stable, consistent and predictable flow of funds, and smooth the effect of market volatility in earnings on the investment of endowment fund assets over a period of years.

At September 30, 2022, the balance in the Endowment Fund was \$29,548 (\$38,256 at September 30, 2021). and is included in the statement of financial position as “Beneficial interest in assets held by Community Foundation.” It is considered to be a “Level 3” fair value measurement, as described in Note 2, and its measurement is based on information received directly from the Community Foundation. Of the total balance, the original contribution made to the Endowment, totaling \$29,013, was classified as net assets with donor restrictions and the net gain (or loss) on assets held in the Endowment Fund, totaling \$7,227, for the year ended September 30, 2022 (\$7,230 for the year ended September 30, 2021) is included in net assets without donor restrictions.

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 THE ARC VILLAGE ENDOWMENT FUND

The Arc entered into an agreement with the Community Foundation to establish and maintain a permanent endowment named The Arc Village Endowment Fund. This endowment is managed and controlled by the Community Foundation. All contributions received by the Community Foundation directly from grantors are irrevocable.

Distributions the Community Foundation makes from the endowment fund to the Arc are limited each year to a distributable amount determined pursuant to the Community Foundation's Spending Policy, as set and amended from time to time by the Community Foundation's Board of Trustees. The Spending Policy is designed to protect the economic value of the principal of the endowment, help the principal grow over time, give the Arc the benefit of a reasonably stable, consistent and predictable flow of funds, and smooth the effect of market volatility in earnings on the investment of endowment fund assets over a period of years.

All amounts relating to these funds are excluded from the accompanying financial statements. At September 30, 2022, the balance in the fund was \$1,175,569 (\$1,381,273 for the year ended September 30, 2021) which includes current year net investment losses and fees of \$163,971 (gains of \$222,459 for the year ended September 30, 2021) and current year fees and distributions to The Arc Village Endowment Fund, totaling \$41,753 (\$41,214 for the year ended September 30, 2021).

NOTE 17 RETIREMENT PLAN

The Arc has maintained a tax-deferred, 403(b) plan covering all eligible employees who have a minimum of one year of service and who are at least 21 years of age. Under this plan, the Arc makes only nonelective contributions up to a limit determined annually by the Board of Directors (5% for the year ended September 30, 2022). In August 2013, the Arc adopted a 457(b) retirement plan. Under this plan, employer discretionary contributions can be made for the benefit of select senior management of the Arc, who has provided three (3) years of continuous service. The retirement expense under these plans totaled \$90,555 for the year ended September 30, 2022. (\$116,799 for the year ended September 30, 2021).

NOTE 18 RENT INCREASES

Under regulatory agreements, the HUD Projects, which include the affiliates, Duval Association for Residential Care, Inc. and St. Nicholas Place, Inc. may not increase rents charged to tenants without HUD approval.

NOTE 19 RECLASSIFICATIONS

Certain 2021 amounts have been reclassified to conform to the 2022 presentation.

NOTE 20 LIQUIDITY OF SHORT-TERM ASSETS

The Arc is substantially supported by unrestricted and restricted funding. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Arc must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Arc's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 LIQUIDITY OF SHORT-TERM ASSETS (Continued)

The following reflects the Arc's financial assets as of September 30, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the financial position date:

	2022	2021
Financial Assets		
Cash and cash equivalents	\$ 3,636,010	\$ 6,215,080
Accounts receivable, net	1,075,774	701,082
Unconditional promises to give, net	351,723	275
Investments	4,554,250	2,634,128
Financial assets, at year end	9,617,757	9,550,565
Less, those unavailable for general expenditures within one year, due to:		
Contractual or donor imposed restrictions:		
Restrictions by donor with purpose restrictions	(1,355,486)	(836,470)
	(1,355,486)	(836,470)
Financial assets available to meet cash needs for general expenditures within one year	\$ 8,262,271	\$ 8,714,095

NOTE 21 CORONAVIRUS

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. The World Health Organization has characterized COVID-19 as a pandemic. The spread of this virus caused business disruption to the Organization due to stay-at-home orders issued by the State of Florida. The impact of COVID-19 to the Organization during the year ended September 30, 2022 is fully reflected in these financial statements. Subsequent to the statement of financial position date, the extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the length of the stay-at-home orders, all of which are highly uncertain and cannot be predicted at this time.

NOTE 22 REFUNDABLE ADVANCES

In April 2020 and in February 2021, the Arc applied for, was approved, and was funded \$1,249,900 and \$1,175,940, respectively, for a loan under the Paycheck Protection Program (PPP) pursuant to the Coronavirus Aid, Relief and Economic Security (CARES) Act that was signed into law on March 27, 2020. As a U.S. small business, the Arc has qualified for the PPP, which allows businesses and nonprofits with fewer than 500 employees to obtain loans of up to \$10 million to incent companies to maintain their workers as they manage the business disruptions caused by the COVID-19 pandemic. Some or all of the loan may be forgiven if at least 60 percent of the loan proceeds are used to cover payroll costs, including the salaries and benefits and other allowable costs, provided the Arc maintains its employment and compensation within certain parameters during the forgiveness period, as determined by management (up to twenty-four weeks), following the loan origination date and complies with other relevant conditions. Should the loan ultimately not be forgiven by the Small Business Administration (SBA), the loan would be paid off in a timely manner.

As of the date of this report, the Arc has satisfied the requirements of the refundable advances and formal forgiveness has been received from the Small Business Administration (SBA) for both loans. Therefore, based on the guidance set forth by FASB, the Arc reported the full amount of \$1,175,940 as refundable advance income on the statement of activities in the year ended September 30, 2021.

THE ARC JACKSONVILLE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 EMPLOYEE RETENTION TAX CREDITS

During the year ended September 30, 2022, the Organization received \$103,072 of employee retention tax credits (ERTC). The funds received are unrestricted and are reported in contract revenue on the statement of activities.

NOTE 24 SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 19, 2023. The impact of Coronavirus (COVID-19) to the Organization is discussed in Note 21.

Additionally, In August 2022, the Duval Association for Residential Care, Inc.'s board of directors passed a resolution agreeing to assume a loan from the Arc in an amount not to exceed \$1,000,000. The loan is to be used to renovate and improve two properties located at 1010 Bert Road and 2450 Jammes Road, both in Jacksonville, Florida. The loan was reviewed and approved by the Department of Housing and Urban Development (HUD). The loan, when funded, will require annual payments bearing an interest rate of 5%, compounded annually, and will mature January 1, 2052. The original mortgage through HUD will be paid off in early 2023 along with an additional loan. As of the date of this report, the loan has not yet been funded. No amounts will be reflected in the financial statements as all the inter-company transactions are eliminated in the consolidated financial statements.

No other events were identified as necessary to be disclosed to keep these financial statements from being misleading or that provide additional evidence about conditions that existed at September 30, 2022, including estimates inherent in the process of preparing these financial statements.

THE ARC JACKSONVILLE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Assistance Revenues</u>	<u>Expenditures</u>
<u>FEDERAL ASSISTANCE</u>				
U.S. Department of Housing and Urban Development				
Direct programs:				
Sec. 8 Housing Assistance Payment Contract	14.195	N/A	\$ 250,441	\$ 250,441
Sec. 202 Direct Loan	14.157	N/A	27,622	27,622
Sec. 811 Housing Assistance Payment Contract	14.195	N/A	60,051	60,051
Sec. 811 Direct Loan	14.157	N/A	316,600	316,600
U.S. Department of Housing and Urban Development				
Pass-through program from:				
City of Jacksonville, Florida				
Community Development Block Grant	14.218		<u>26,619</u>	<u>26,619</u>
			<u>681,333</u>	<u>681,333</u>
Federal Transit of Administration				
Pass-through program from:				
Florida Department of Transportation				
5310 Operating and Capital Assistance	20.513	N/A	<u>204,954</u>	<u>204,954</u>
			<u>204,954</u>	<u>204,954</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 886,287</u>	<u>\$ 886,287</u>

THE ARC JACKSONVILLE, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The Arc Jacksonville, Inc. and its affiliates, Duval Association for Residential Care, Inc., and St. Nicholas Place, Inc. under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of The Arc Jacksonville, Inc. and Affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Arc Jacksonville, Inc. and Affiliates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 DE MINIMIS INDIRECT COST RATE ELECTION

The consolidated group of The Arc Jacksonville, Inc. and Affiliates has elected not to use the 10 percent de minimis indirect cost rate as allowed under Uniform Guidance.

NOTE 4 CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. If any expenditures are disallowed as a result of these audits, the claims for reimbursement to the grantor agency would become a liability to the Organization.

NOTE 5 PASS-THROUGH AWARDS

The Organization received certain federal awards from pass-through awards from state and other funding agencies. The total amount of such pass-through awards is included in the Schedule of Expenditures of Federal Awards.

THE ARC JACKSONVILLE, INC.
SCHEDULE OF SOURCES AND STATUS OF FUNDS
FOR THE CITY OF JACKSONVILLE PER ORDINANCE 118.208(e)
YEAR ENDED SEPTEMBER 30, 2022

Community Development Block Grant 10/1/21- 9/30/22
Federal grant coding B21UC120017

Receipt of funds

Total award	\$ 26,619
Funds received during the fiscal year ended 9/30/22	<u>(26,619)</u>
Amount forfeited	<u>\$ -</u>

Expenditure of funds during the fiscal year ended 9/30/2022

<u>Item</u>	<u>Current Budget</u>	<u>Expenses 9/30/22</u>	<u>Total</u>	<u>Remaining</u>
Salaries	<u>\$ 26,619</u>	<u>\$ 26,619</u>	<u>\$ 26,619</u>	<u>\$ -</u>

Public Service Grant 10/1/21- 9/30/22

Receipt of funds

Total award	\$ 150,000
Funds received during the fiscal year ended 9/30/22	<u>(150,000)</u>
Amount forfeited	<u>\$ -</u>

Expenditure of funds during the fiscal year ended 9/30/2022

<u>Item</u>	<u>Current Budget</u>	<u>Expenses 9/30/22</u>	<u>Total</u>	<u>Remaining</u>
Vice President,Employment	\$ 33,689	\$ 33,689	\$ 33,689	\$ -
Employment Specialist	33,800	33,800	33,800	-
Community Navigator 1	27,300	27,300	27,300	-
Community Navigator 2	29,813	29,813	29,813	-
FICA and Med Tax	9,334	9,334	9,334	-
Retirement	3,092	3,092	3,092	-
Worker's Compensation	4,464	4,464	4,464	-
Health insurance	8,508	8,508	8,508	-
	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ -</u>

ABARE, KRESGE & ASSOCIATES CPAS, LLC

CERTIFIED PUBLIC ACCOUNTANTS

1200 Plantation Island Drive South, Ste 230
St. Augustine, FL 32080
William T. Abare III, CPA, MAFF, CVA, MAcc

(904) 460-0747
Fax (904) 209-3000
Kenneth R. Kresge, CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
The Arc Jacksonville, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Arc Jacksonville, Inc. (the "Arc"), which comprise the consolidated statement of financial position as of September 30, 2022, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 19, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Arc's internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Arc's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arc's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Arc's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Arc's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Arc's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abare, Kresge & Associates CPAs, LLC

St. Augustine, Florida
January 19, 2023

ABARE, KRESGE & ASSOCIATES CPAS, LLC

CERTIFIED PUBLIC ACCOUNTANTS

1200 Plantation Island Drive South, Ste 230
St. Augustine, FL 32080
William T. Abare III, CPA, MAFF, CVA, MAcc

(904) 460-0747
Fax (904) 209-3000
Kenneth R. Kresge, CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY *THE UNIFORM GUIDANCE*

To the Board of Directors of
The Arc Jacksonville, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The Arc Jacksonville, Inc., its subsidiaries, and its affiliates', Duval Association for Residential Care, Inc. and St. Nicholas Place, Inc., (the "Arc"), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Arc's major federal programs for the year ended September 30, 2022. The Arc's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Arc complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Fedal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Arc and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Arc's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Arc's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Arc's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Arc's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Arc's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Arc's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Arc's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Adam, Krueger & Associates CPAs, LLC

St. Augustine, FL
January 19, 2023

THE ARC JACKSONVILLE, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 2022

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:
 Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported
 in accordance with the Uniform Guidance? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.157	202 Direct Loan

Dollar threshold used to distinguish between
 Type A and Type B programs: \$ 750,000 _____

Auditee qualified as low-risk auditee? X Yes _____ No

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

THE ARC JACKSONVILLE, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2022

There are no prior audit findings.